



## Expenditure Monitor: 2012-13 Q3

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Ottawa, Canada

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[www.pbo-dpb.gc.ca](http://www.pbo-dpb.gc.ca)

**Key Points of this Note:**

- This note reviews federal expenditures for the first nine months of the fiscal year 2012-13 (*i.e.* April to December 2012).
- Based on data from the first nine months, total federal expenditures were 1.6 per cent lower than the same period in the previous fiscal year.
  - Increases in major transfers to individuals and other jurisdictions are offset by lower public debt charges and operating expenditures, which were subject to the Budget 2012 restraint exercise.
- Spending on Internal Services, which is part of the “back office” operations targeted by recent rounds of expenditure restraint, were 6.3 per cent lower compared to the same period last year. This decrease was primarily attributable to two organizations: the Canada Revenue Agency and Canada Border Services Agency.
- Summary tables of total expenditures by program activity for the first nine months of 2012-13 are published on the PBO website ([www.pbo-dpb.gc.ca](http://www.pbo-dpb.gc.ca)). The Integrated Monitoring Database (IMD) has been updated to include expenditure data for the first nine months of the fiscal year, including program activity data.

Prepared by: Jason Jacques, Trevor Shaw and Jason Stanton\*

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\* Contact Jason Jacques (e-mail: [jason.jacques@parl.gc.ca](mailto:jason.jacques@parl.gc.ca)) for further information.

## 1. Context

The Parliamentary Budget Officer's (PBO) legislative mandate is to "provide independent analysis to the Senate and to the House of Commons about the state of the nation's finances, the estimates of the government and trends in the national economy".<sup>1</sup> Consistent with this, the PBO performs ongoing analysis of variations to departments' and agencies' spending authorities that are outlined in the Estimates (*i.e.* the provision of spending authorities provided by Parliament), as well as tracks in-year expenditures of these authorities.<sup>2</sup>

This monitoring framework allows the PBO to identify specific items of material interest to parliamentarians as they consider additional adjustments to authorities proposed by the Government. Also, since spending restraint plans announced in Budget 2012 were not presented in the Estimates documents (*i.e.* the Main and Supplementary Estimates, as well as the Reports on Plans and Priorities) the framework provides further clarity to parliamentarians, helping identify which programs may have been affected by the spending restraint currently being implemented.<sup>3</sup>

This note reviews actual expenditures for the first nine months of the current fiscal year (*i.e.* April to December 2012).

## 2. Year-to-Date Highlights of 2012-13

### *Total Expenditures*

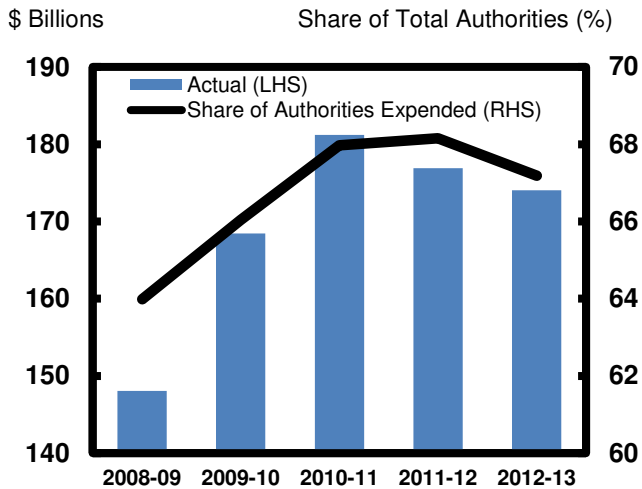
Total expenditures are comprised of four components: major transfers to individuals; major transfers to other levels of government; debt servicing costs; and Direct Program Spending (DPS). The first three types of spending are statutory in nature and are driven by variation in economic variables (*e.g.* inflation). PBO analysis focuses on DPS, which has been the target of the Government's recent restraint initiatives.

Total expenditures in the first nine months of 2012-13 declined by \$2.9 billion from the same period in 2011-12, a year-over-year decrease of 1.6 per cent (Figure 2-1). Expenditure declines are driven primarily through a \$2.6 billion decrease in DPS. Increases of \$1 billion in major transfers are offset by approximately \$1.3 billion in lower debt interest costs (arising from a lower than anticipated interest rate environment).

<sup>1</sup> <http://laws.justice.gc.ca/eng/PDF/P-1.PDF>. Accessed March 2013.

<sup>2</sup> An overview of the methodology used by the PBO is provided in the complementary briefing note, "Expenditure Monitor: Methodology". [http://www.pbo-dpb.gc.ca/files/files/Publications/Expenditure\\_Monitor\\_Guide.pdf](http://www.pbo-dpb.gc.ca/files/files/Publications/Expenditure_Monitor_Guide.pdf). Accessed March 2013.

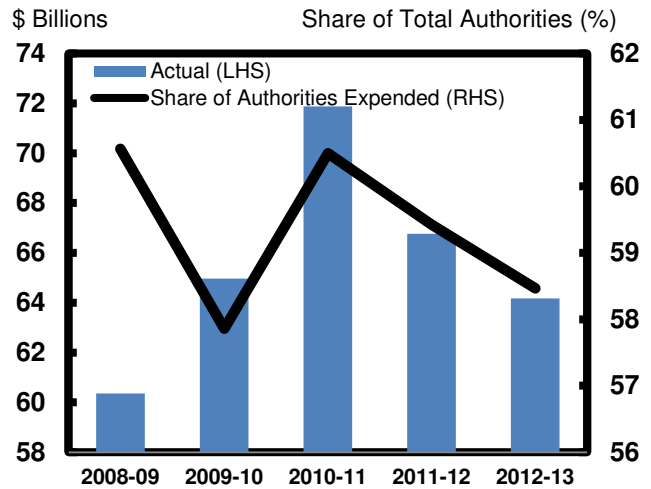
<sup>3</sup> <http://www.pbo-dpb.gc.ca/files/files/Expenditure%20Monitoring%20Framework.EN.pdf>. Accessed March 2013.

**Figure 2-1****Total Expenditures in the First Nine Months of the Fiscal Year<sup>4</sup>**

Sources: Government of Canada; PBO calculations.

**Direct Program Spending (DPS)**

DPS is comprised of operating and capital expenditures of departments and agencies, as well as other transfer payment programs (e.g. contingently repayable payments to aerospace and defence firms) and payments to Crown Corporations. In the first nine months of 2012-13, DPS expenditures were \$2.6 billion (3.9 per cent) lower compared to the same period in 2011-12 (Figure 2-2).

**Figure 2-2****DPS in the First Nine Months of the Fiscal Year**

Sources: Government of Canada; PBO calculations.

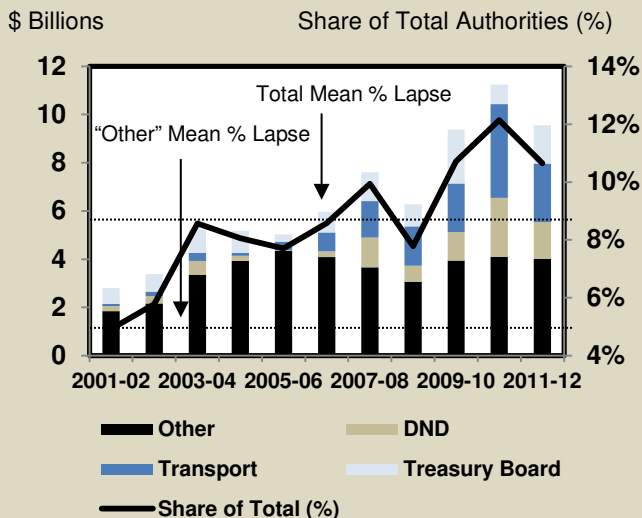
While the share of total budgetary authorities expended fell to 58.5 per cent, it is not necessarily indicative of a larger anticipated budgetary lapse, given that a substantial amount of expenditures, in particular capital and other transfer payments, occur in the last quarter of the year (Box 2-3).

<sup>4</sup> Expenditure data are net of Canada Revenue Agency transfers for tax expenditures that are classified as "spending", but are not included in the Government's Estimates.

**Box 2-3****Historical Lapses of Budgetary Authorities**

Budgetary authorities are provided through two mechanisms: Appropriation Bills that are voted annually (*i.e.* “voted”); and non-expiring statutory authorities provided through legislation (*i.e.* “statutory”). The former sets “up to” expenditure ceilings for types of monies, such as operating and capital. In the case of the latter, the Government publishes annual point estimates of the most likely level of expenditure in a given year.

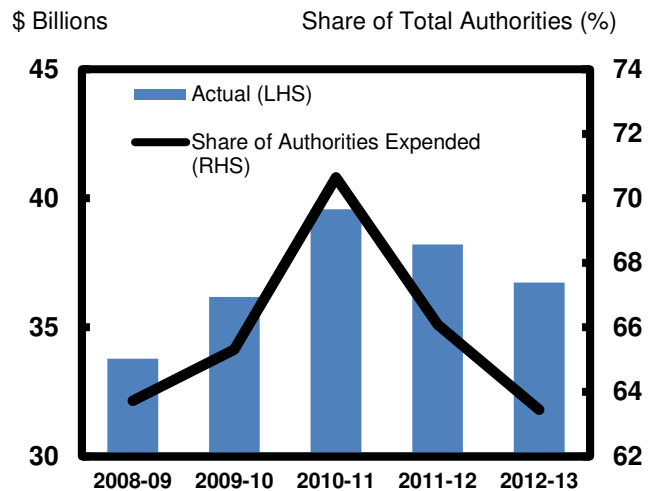
Each year, there is a certain level of “voted” authorities that remain unspent. This is generally referred to as “lapsing authorities”. As depicted in the graph below, lapses have consistently grown over the past decade, rising to a high of \$11.2 billion or 12.1 per cent of budgetary authorities in 2010-11. Recent growth was primarily attributable to operating and capital expenditures for National Defence and infrastructure transfer payments. Going forward, these two lapse sources are expected to be less pronounced: Budget 2012 indicated that National Defence’s capital budgets were reprofiled over the medium term (spread over a greater number of years); the 2012 Update of Economic and Fiscal Projections signaled a similar reprofiling for infrastructure monies.

**Lapses of Voted Budgetary Authorities**

Sources: Public Accounts of Canada; PBO calculations.

**(i) Operating Expenditures**

Over half of the decrease in DPS is attributable to a decline in operating expenditures, which were \$1.5 billion (3.9 per cent) lower in 2012-13 compared to the same period in 2011-12 (Figure 2-4). Departments and agencies also expended a smaller share of their authorities in the first nine months (63 per cent), compared to the previous year (66 per cent). This is due, in part, to the Government’s decision to implement the first year of Budget 2012 reductions through frozen allotments, which prohibit organizations from spending their already approved parliamentary allocations.

**Figure 2-4****Operating Expenditures in the First Nine Months of the Fiscal Year**

Sources: Government of Canada; PBO calculations.

Personnel spending reductions represent almost half of the decrease in operating expenditures. Based on the quarterly reports of departments and agencies, total year-to-date spending on personnel decreased by approximately \$0.6 billion (2.2 per cent) from the previous year, reflecting the Government’s announcement that

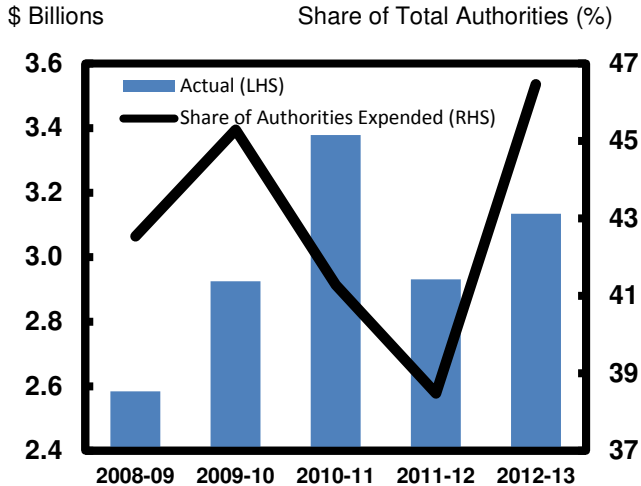
over 16,000 positions were eliminated in the first nine months of 2012-13.<sup>5,6</sup>

### (ii) Capital Expenditures

As presented in Figure 2-5, capital expenditures increased almost 7 per cent in the first nine months of 2012-13 to \$3.1 billion. The share of expenditures relative to authorities also increased, to 47 per cent.

Growth in the spend rate for capital (*i.e.* the level of capital expenditures compared to capital authorities) was anticipated given that substantial authorities for National Defence that had recurrently lapsed over the past few years have been reprofiled over the medium term, reflecting a deferral of the procurement schedule.

**Figure 2-5**  
**Capital Expenditures in the First Nine Months of the Fiscal Year**



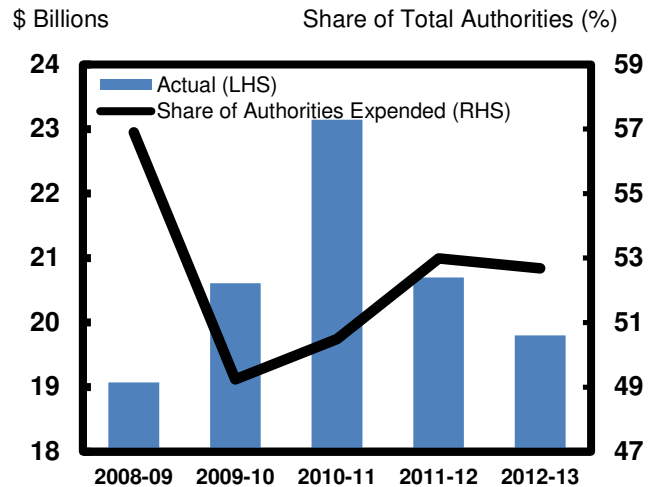
Sources: Government of Canada; PBO calculations.

### (iii) Other Transfer Payments

Expenditures relating to non-major transfer payments decreased \$0.9 billion (4.4 per cent) in

the first nine months of 2012-13 compared to the previous year (Figure 2-6). The decrease in these transfers was anticipated due to the wind-down of Stimulus Measures under the Economic Action Plan, as well as the reprofiling of planned infrastructure spending over the medium term.

**Figure 2-6**  
**Other Transfer Payments Expenditures in the First Nine Months of the Fiscal Year**



Sources: Government of Canada; PBO calculations.

## 3. Internal Services

Internal Services is a distinct program activity that is common amongst most departments and agencies. It is a composite of operating and capital expenditures, and it includes areas such as communications, financial management, human resource management, and information technology.<sup>7</sup> As noted in Budget 2013, these types of expenditures have been the primary target of recent restraint exercises, which focused on “making government operations leaner, while preserving fundamental programs and services”.<sup>8</sup>

<sup>5</sup> Data was taken from departments' quarterly financial reports.

<sup>6</sup> <http://www.budget.gc.ca/2013/doc/plan/chap4-1-eng.html>. Accessed March 2013.

<sup>7</sup> <http://www.tbs-sct.gc.ca/est-pre/20122013/me-bpd/me-bpd-eng.pdf>. Accessed March 2013.

<sup>8</sup> <http://www.budget.gc.ca/2013/doc/plan/chap4-1-eng.html>. Accessed March 2013.

In the first nine months of 2012-13, expenditures for Internal Services declined \$552 million to \$8.2 billion compared to the previous year. The decline in spending is principally accounted for by substantial decreases in two federal agencies: the Canada Revenue Agency (CRA, \$365 million) and Canada Border Services Agency (CBSA, \$211 million), which are each 30 per cent lower compared to the previous year (Box 3-1).

As noted in Appendix A (*Analysis of Federal Internal Services*), personnel costs comprise approximately 70 per cent of Internal Service expenditures. It is therefore notable that while CRA and CBSA have materially decreased their Internal Service expenditures, their personnel costs have risen (\$79 million, CRA) and only marginally declined (\$27 million, CBSA) during the same time period.

### Box 3-1

#### Calculating Internal Services

The Government has never defined or explained how to calculate “back office” expenditure, which was the primary focus of the Budget 2012 spending reduction. As such, the PBO has tracked expenditures in the Internal Services program to make inferences regarding trends in “overhead” spending – spending not directly related to front-line service delivery.

The PBO calculates in-year Internal Service spending for each federal organization using total expenditure on the Internal Services program activity, sourced from data compiled in the Government’s Central Financial Management and Reporting System (CFMRS). Revenues related to the provision of “Internal Support Services” to other federal organizations are also netted from the calculation.

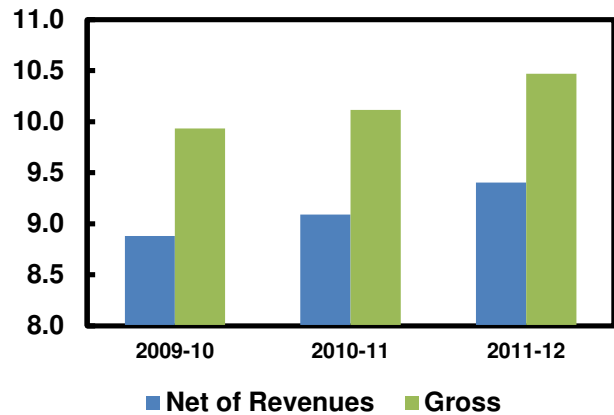
As well, in 2011-12, funding was transferred from IT-related Internal Services across most departments and agencies to create Shared Service Canada (SSC). Hence, net spending from SSC is also included.

If the in-year decrease is sustained, it would reverse the three-year growth trend in Internal Services identified by the Treasury Board Secretariat (Figure 3-2).<sup>9</sup>

**Figure 3-2**

#### Internal Services Expenditures

\$ Billions



Sources: Treasury Board Secretariat of Canada, from the *Public Accounts of Canada* 2009-10 to 2011-12.

Note: TBS figures for 2011-12 only include Internal Service expenditures for Shared Services Canada (SSC), rather than the PBO methodology that includes all net SSC spending.

## 4. Individual Items

PBO analyzed data from both authorities and program activities for the first nine months of 2012-13 to determine the level of variation in departmental spending from the previous fiscal year. The most significant changes in expenditures, both in dollar value and percentage, are presented in Annex A.

Material changes in authorities are detailed according to information provided in the quarterly financial reports of departments and agencies. Organizations are not required to report on the basis of program activities, resulting in inconsistencies in the level of detail explaining

<sup>9</sup> Data sourced from Government Response to Order Paper question 1166.

changes in expenditures by program activity. That said, an emerging practice in transparency is the inclusion of quarterly expenditures on a program activity basis (Box 4-1).

A full description of each program activity in the Government of Canada is presented on the [Receiver General for Canada's website](#).

#### **Box 4-1**

##### **Leading Practices in Transparency**

The Seventh Report of the House of Commons Standing Committee on Government Operations and Estimates recommended that the Government shift the Estimates framework to a program activity basis, noting that financial information presented in this manner is more tangible and meaningful for parliamentarians.

The Government concurred with this recommendation, noting that it would develop a model that is aligned with Strategic Outcomes and Program Activities.

While the Government has not yet updated its guidelines for Quarterly Financial Reporting to require presentation on a program activity basis, departments and agencies increasingly include more descriptive detail than required. A recent innovation was the inclusion of in-year expenditures on a program activity basis by the Canadian Northern Economic Development Agency.

## **5. Conclusion**

Over the first nine months of the 2012-13 fiscal year, total federal expenditures decreased by approximately 1.6 per cent compared to the same period in the previous fiscal year.

Constraining DPS, which is one of the four components of total expenditures, has been the main area of focus of the Government to achieve its balanced-budget objectives. On a year-over-year basis, DPS has decreased by 3.9 per cent compared to the same period in the previous fiscal year. PBO will continue to monitor the implementation of Budget 2012 and the Government's Expenditure Plan.

The Integrated Monitoring Database (IMD) has been updated to include expenditure data for the first nine months of the 2012-13 fiscal year, including the program activity data.

## Annex A

**Table 1. Largest \$ Changes in Authorities: Total Year-to-Date Expenditures in 2012-13 versus previous year<sup>1</sup>**

Organization	Authorities	\$ Δ (000s)	Explanation from Quarterly Report
Finance	<b>Public Debt Interest and Other Costs<sup>2</sup></b>	-1,318,582	<i>Decreased interest rates</i>
Human Resources and Skills Development	<b>Old Age Security Payments</b>	1,309,389	<i>Greater number of seniors; increased payment amounts</i>
Finance	<b>Canada Health Transfer</b>	1,222,803	<i>Planned legislative increase</i>
Office of Infrastructure of Canada	<b>Contributions</b>	-481,475	<i>Partly attributed to the completion of programs under the Economic Action Plan</i>
National Defence	<b>Operating Expenditures</b>	-439,816	<i>Establishment of Communications Security Establishment as a stand-alone agency; transfer of operations to Shared Services Canada</i>
Natural Resources	<b>Grants and Contributions</b>	-391,997	<i>Primarily from the decrease in the Pulp and Paper Green Transformation Program</i>
Human Resources and Skills Development	<b>Guaranteed Income Supplement Payments</b>	391,321	<i>Greater number of seniors; increased payment amounts</i>
Royal Canadian Mounted Police	<b>Operating Expenditures</b>	-327,896	<i>Timing difference in revenue flows compared to the previous year</i>
Human Resources and Skills Development	<b>Operating Expenditures</b>	-325,855	<i>Mainly attributable to immediate payments for severance pay and termination benefits due to revisions to specified collective agreements, as well as the transfer of activities to Shared Services Canada (SSC)</i>
Statistics Canada	<b>Operating Expenditures</b>	-270,166	<i>Most of the decrease in spending is due to the completion of census-related activities</i>

1. All Authorities listed in the 2012-13 Main Estimates with total authorities above \$100 million in 2011-12 or 2012-13; excluding non-budgetary items.

2. This is a combination of two separate items: *Interest on Unmatured Debt* and *Other Interest Costs*.

**Table 2. Largest % Changes in Authorities: Total Year-to-Date Expenditures in 2012-13 versus previous year<sup>1</sup>**

Organization	Authorities	Δ %	Explanation from Quarterly Report
Canadian Food Inspection Agency	<b>Compensation Payments</b>	2195%	<i>Increase in compensation payments made to owners of salmon that were ordered destroyed under the Health of Animals Act due to Infectious Salmon Anaemia</i>
Aboriginal Affairs and Northern Development	<b>Capital Expenditures</b>	578%	<i>Primarily from an increase in funding for negotiation, settlement and implementation of specific and comprehensive claims</i>
Human Resources and Skills Development	<b>Canada Disability Savings Bond</b>	279%	<i>This increase is mostly explained by the carry-forward of bond entitlements, which was implemented in January 2012</i>
Foreign Affairs and International Trade	<b>Capital Expenditures</b>	202%	<i>Received a temporary allocation from TBS for the London Chancery; incremental funding for strengthening security at missions abroad</i>
Canadian Heritage	<b>Payments to the Canadian Museum for Human Rights</b>	111%	<i>Further funding for building construction, exhibits, fit-up and other operating costs for the museum</i>
Transport	<b>Grants and Contributions</b>	110%	<i>Primarily due to an increase in expenditures for the Gateway and Border Crossings Fund and the Asia-Pacific Gateway and Corridor Transportation Infrastructure Fund</i>
Finance	<b>Grants and Contributions</b>	-87%	<i>A result of timing of payments to the Toronto Waterfront Revitalization Initiative and a decrease in bilateral debt relief payments</i>
Canadian Food Inspection Agency	<b>Capital Expenditures</b>	86%	<i>Transfer from Agriculture and Agri-Food Canada for the development of a Traceability National Information Portal; Resources for the Food Safety Modernization initiative; Increase in 2011-12 carry forward as compared to the 2010-11 carry forward</i>
Natural Resources	<b>Grants and Contributions</b>	-67%	<i>Primarily from the decrease in the Pulp and Paper Green Transformation Program</i>
Correctional Service	<b>Capital Expenditures</b>	66%	<i>Construction of new living units in many of CSC's existing institutions</i>

1. All Authorities listed in the 2012-13 Main Estimates with total authorities above \$10 million in 2011-12 or 2012-13; excluding non-budgetary items.

**Table 3. Largest \$ Changes in Program Activities: Total Year-to-Date Expenditures in 2012-13 versus previous year<sup>1</sup>**

Organization	Program Activities	\$ Δ (000s)	Explanation from Quarterly Report
Human Resources and Skills Development	<b>Income Security</b>	1,764,250	<i>Greater number of seniors; increased payment amounts</i>
Finance	<b>Treasury and Financial Affairs</b>	-1,328,903	<i>Decreased interest rates</i>
National Defence	<b>International Peace, Stability and Security</b>	-664,523	<i>None</i>
Finance	<b>Transfer and Taxation Payment Programs</b>	-383,226	<i>Planned legislative decreases in transfer programs</i>
Canada Revenue Agency	<b>Internal Services</b>	-364,618	<i>None</i>
Aboriginal Affairs and Northern Development	<b>Co-operative Relationships</b>	291,489	<i>Increase in Specific Claims Settlement activity, which was largely attributable to the Coldwater Narrows Specific Claim</i>
Transport	<b>Transportation Infrastructure</b>	284,488	<i>None</i>
Agriculture and Agri-food Canada	<b>Business Risk Management</b>	-280,133	<i>Additional authorities were available for the Agri-Recovery program for the first three quarters of 2011-2012, under which AAFC provided assistance to producers affected by excess moisture</i>
Statistics Canada	<b>Census, Demography and Aboriginal Statistics</b>	-272,129	<i>2011 Census of Population held during first quarter of previous year</i>
National Defence	<b>Defence Team Personnel Support</b>	252,571	<i>None</i>

1. All Program Activities listed in the 2012-13 Main Estimates with total authorities above \$10 million in 2011-12 or 2012-13; excluding non-budgetary items.

**Table 4a. Largest % Increase in Program Activities: Total Year-to-Date Expenditures in 2012-13 versus previous year<sup>1</sup>**

Organization	Program Activities	Δ %	Explanation from Quarterly Report
Canadian Northern Economic Development Agency	<b>Business Development</b>	7859%	<i>Transfer of spending from the Strategic Investments in Northern Economic Development (SINED) program occurred in the fourth quarter of 2011-12, but included in 2012-13; early payments of contributions; reallocation of operating costs between program activities</i>
Canada Mortgage and Housing Corporation	<b>Affordable Housing Initiative</b>	672%	<i>Due to higher spending under the Investment in Affordable Housing as a result of delayed spending in 2011 and higher than planned expenditures for the social housing portfolio</i>
Canada Mortgage and Housing Corporation	<b>Research and Information Dissemination</b>	264%	<i>None</i>
Aboriginal Affairs and Northern Development	<b>Urban Aboriginal Strategy</b>	246%	<i>Transfer of authorities from Canadian Heritage occurred in 2012-13, resulting in higher than reported growth</i>
Veterans Affairs	<b>Remembrance Outreach</b>	204%	<i>None</i>

**Table 4b. Largest % Decrease in Program Activities: Total Year-to-Date Expenditures in 2012-13 versus previous year<sup>1</sup>**

Organization	Program Activities	Δ %	Explanation from Quarterly Report
Chief Electoral Officer	<b>Electoral Operations</b>	-89%	<i>41st Election held during first quarter of previous year</i>
Statistics Canada	<b>Census, Demography and Aboriginal Statistics</b>	-86%	<i>2011 Census of Population held during first quarter of previous year</i>
Office of Infrastructure of Canada	<b>Border Infrastructure Fund</b>	-76%	<i>Due to the new forecasting methodology and the department advancing less funds to Federal Delivery Partners (FDPs) than the prior FY</i>
Chief Electoral Officer	<b>Regulation of Electoral Activities</b>	-75%	<i>41st Election held during first quarter of previous year</i>
Privy Council Office	<b>Commissions of Inquiry</b>	-69%	<i>Decrease in the operations of the Commission of Inquiry into the Decline of Sockeye Salmon in the Fraser River for 2012-13 since the wrap-up of the Commission by December 31, 2012</i>

1. All Program Activities listed in the 2012-13 Main Estimates with total authorities above \$10 million in 2011-12 or 2012-13; excluding non-budgetary items.

## APPENDIX A: ANALYSIS OF INTERNAL SERVICES EXPENDITURES

### 1. Context

This appendix examines the key components of Internal Services expenditures from 2009-10 to 2011-12, highlighting the drivers of growth.

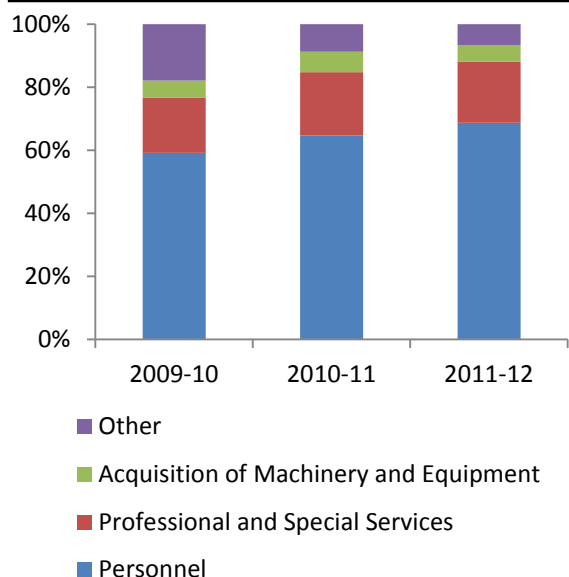
### 2. Decomposition of Internal Services Expenditures

#### (i) Components of Internal Services spending

Personnel expenditures are the largest expenditure category within Internal Services (IS), comprising 69 per cent of total IS expenditures in 2011-12 (Figure A-1). Personnel expenditures are comprised of four basic components, with salaries and wages accounting for the vast majority of the total (Figure A-2).

**Figure A-1**

#### Internal Services Expenditures



Sources: Receiver General for Canada; PBO calculations.

From 2009-10 to 2011-12 IS-related personnel expenditures grew by almost \$1.2 billion (or 21 per cent), while other components of spending were stable or decreased.

**Figure A-2**

#### Personnel Expenditure: Components

Average 2009-10 to 2011-12

Personnel	
Salaries and Wages	83%
Employer Contributions	15%
Allowances and Other Benefits	2%
Supplementary Personnel Costs	1%

Sources: Receiver General for Canada; PBO calculations.

IS personnel spending increased by \$590 million (or 11 per cent) from 2009-10 to 2010-11, driven primarily through a \$550 million increase in salary and wage payments to full-time civilian, military and RCMP personnel (Figure A-3).<sup>10</sup> A key driver of this increase was a 6 per cent growth (year-over-year) in the number of personnel employed on a Full-Time Equivalent (FTE) basis.<sup>11</sup>

In 2011-12 IS personnel spending increased by a further \$570 million (9 per cent), while the number of FTEs employed rose by 1 per cent.

Almost all of the increased spending in 2011-12 is attributable to a \$400 million payment to terminate voluntary severance benefits for many federal employees, which are not an ongoing personnel expense.<sup>12</sup>

<sup>10</sup> Receiver General for Canada.

<sup>11</sup> Departmental Performance Reports, 2009-10 to 2010-11. Accessed March 2013.

<sup>12</sup> As of January 2013, there remain approximately 80,000 employees still under negotiation, so subsequent one-time severance payments could occur in upcoming fiscal years.

